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# Family Businesses: Social Capital Is Key To Successful Succession Planning



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Carpenters father and son working in workshop GETTY

The concept of a family business may seem like a relic of the past, but the vast majority of businesses in the United States, and likely the world, still have their origins rooted in the family business model. As anyone familiar with the process of entrepreneurship will tell you, starting a business from scratch, generally with limited resources, is no easy feat. Entrepreneurs tend to lean on their family and friends in order to get their businesses off the ground; thus, a family business is born.

While most family businesses do not survive into the third generation, this does not mean that the business was a failure — two generations is a nice run. Even just a single generation isn't bad as a successful business often provides for the funding of higher education and perhaps a more robust future for the founder's children.

About one-third of the S&P 500 companies can be categorized as family businesses, and approximately 40 percent of the 250 largest businesses in France and Germany are family businesses. Indeed, well-run family businesses not only

endure, they tend to perform extremely well over time, and the growth rate for family businesses that go public often exceed the performance of their non-family business peers. As a multifamily office we often consult to the founders, and successive generations, of family businesses,

## **Social capital can make or break a family business**

So what makes a family business different, and why do some thrive through multiple generations while others do not? The answer, as many experts in the field have posited, may lie in something quite intangible – the idea of social capital – long before the handle “social” anything was in vogue. First defined by author Lyda Hanifan in 1916 as “those tangible assets [that] count for most in the daily lives of people: namely goodwill, fellowship, sympathy and social intercourse among the individuals and families who make up a social unit...” social capital is built from the well of deep trust and shared values that can be unique to familial relationships. Social capital is inherent in most family-owned businesses due to the bedrock of a tightly-knit family unit, but if left unchecked, it also can lead to unintended outcomes. It is this emotional intensity that can muddy the waters between the professional and the personal, thus further exacerbating business issues. Properly harnessing the social capital of a family business takes a high degree of collaboration, dialogue and interaction, and an essential set of ground rules. Often, an outside consultant can suggest “rules of the road” that can make a huge difference. As financial advisors, sometimes in conjunction with psychologists experienced in family dynamics, we’ve assisted families in overcoming conflicts that can limit a business’s growth, and otherwise threatening its survival.

## **Why invest in experienced advisors?**

Experienced advisory professionals play an important role in encouraging the development of social capital in family business settings, creating a system of governance within the family that can nurture and sustain the company through multiple generations (or at least the current generation). The advisor must work within the unique dynamics of each family business to build a system that actively

practices the values they hold dear, which, writes James E. Hughes Jr. in his book, *Family Wealth: Keeping It in the Family*, must be reaffirmed within and among generations.

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The job of the family advisor can begin with seemingly routine tasks such as organizing family meetings, setting agendas, providing deliverables and financials and moderating dialogue. While this may sound mundane, these tasks often are crucial to the success and continuity of a family business. Effective communication is essential for the success of all businesses, and even more so when dealing with family dynamics. Fostering an environment where information is communicated in a respectful and productive manner can help to jumpstart the development or, and enhancements of, an operational model, spark improvements to a capital structure, and help to create a succession strategy for the future.

### **Keeping it in the family**

Whether it is as a provider of expertise in technical areas such as tax, corporate, investment, accounting and general legal structuring, or (and perhaps more importantly), the “softer” areas of governance, succession and family dynamics, the family business advisor play an extremely important fulcrum towards multigenerational success. The process of passing down a business from one generation to the next is hard stuff! The right advisor not only understand how to support the family’s existing social capital, but also can provide some outside perspective and help put into place a system of governance that strengthens this capital – now and into the future.

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Rob Clarfeld is founder of Clarfeld Financial Advisors, a leading wealth management firm with offices in Westchester, N.Y., and New York City that provides comprehensive... **Read More**

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